

NAPA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

Audit Report

FLOOD CONTROL SUBVENTIONS PROGRAM

Napa River/Napa Creek Project

July 1, 2005, through June 30, 2016



BETTY T. YEE
California State Controller

January 2022



BETTY T. YEE
California State Controller

January 20, 2022

Eric Nichol, Assistant Chief
Division of Flood Management
Department of Water Resources
3310 El Camino Avenue, Suite 120
Sacramento, CA 95821

Dear Mr. Nichol:

The State Controller's Office audited claims submitted by the Napa County Flood Control and Water Conservation District to the Department of Water Resources (DWR) under the Flood Control Subventions Program. Our audit pertained to DWR Claim Numbers 27a and 64 through 70, for the period of July 1, 2005, through June 30, 2016.

The district claimed \$3,988,264 in project costs during the audit period. Our audit found that \$3,900,754 is allowable and \$87,510 is unallowable. The unallowable costs consisted of \$47,385 in services and supplies costs and \$40,125 in labor costs. The State's share of allowable costs is \$2,994,431. DWR has already reimbursed the district \$2,761,957 (90% of project costs claimed); therefore, the district is owed the remaining balance of \$232,474.

DWR has retained \$306,884 (10% of project costs claimed), which is to be released to the district pending the results of this audit. DWR should reduce the retention balance to \$232,474, the amount still owed to the district based on our audit.

If you have any questions, please contact Efren Lose, Chief, Local Government Audits Bureau, by telephone at (916) 324-7226.

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/as

cc: Sami Nall, Manager, Flood Control Subventions Program
Department of Water Resources
Richard M. Thomasser, District Manager
Napa County Flood Control and Water Conservation District
Brad Wagenknecht, Chairperson
Napa County Flood Control and Water Conservation District
Tracy A. Schulze, Auditor-Controller
Napa County

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Audit Report

Summary

The State Controller's Office (SCO) audited the reimbursement claims of the Napa County Flood Control and Water Conservation District submitted to the Department of Water Resources (DWR) under the Flood Control Subventions Program. Our audit pertained to DWR Claim Numbers 27a and 64 through 70, for the period of July 1, 2005, through June 30, 2016.

The district claimed \$3,988,264 during the audit period. Our audit found that \$3,900,754 is allowable and \$87,510 is unallowable. The unallowable costs consisted of \$47,385 in services and supplies costs, and \$40,125 in labor costs. The State's share of allowable costs is \$2,994,431. DWR has already reimbursed the district \$2,761,957 (90% of the district's claim); therefore, the district is owed the remaining balance of \$232,474.

DWR has retained \$306,884 (10% of project costs claimed), which is to be released to the district pending the results of this audit. DWR should reduce the retention balance to \$232,474, the amount still owed to the district, based on our audit.

Background

The State of California provides financial assistance to local agencies participating in the construction of federal flood control projects. Under the Flood Control Subventions Program (California Water Code, Division 6, Part 6, Chapters 1 through 4), the DWR pays a portion of the local agency's share of flood control project costs, including the costs of rights of way, relocation, and recreation and fish and wildlife enhancements. In accordance with California Water Code section 12748, DWR reimburses the district for 75% of eligible costs associated with land acquisitions and 90% of eligible costs associated with relocations.

The DWR's *Guidelines for Reimbursement on Flood Control Projects* (*Guidelines*) describe the compliance requirements for local agencies seeking reimbursement for the state share of federal flood control projects.

Audit Authority

We conducted this performance audit under the general authority of Government Code section 12410 and the specific authority of California Water Code section 12832, which requires the State Controller to perform audits of flood control projects.

Objective, Scope, and Methodology

Our audit objective was to determine whether the costs claimed as presented in the Schedule were:

- Allowable and in compliance with the DWR *Guidelines*; and
- Adequately supported and documented.

We audited the Napa River/Napa Creek project for the period of July 1, 2005, through June 30, 2016.

To achieve our objective, we performed the following procedures:

- We gained an understanding of the district's internal controls that are significant to the audit objective by reviewing policies and procedures and interviewing key personnel.
- We evaluated and assessed the control activities over the claim preparation process by inspecting documents and records, completing an internal control questionnaire, and inquiring with key personnel.
- We assessed the reliability of computer-processed data by reviewing existing information about the data and the system that produced it; by interviewing district officials knowledgeable about the data; and by judgmentally tracing a non-statistical sample of data to source documents. We determined that the data was sufficiently reliable for the purposes of achieving our audit objective.
- We reviewed the district's prior SCO audit and single audit reports.
- We reviewed DWR's engineering reports and claim evaluations pertaining to the district's claims.
- We determined whether the district received revenues that should be offset against the flood program expenditures.
- We reviewed the district's claim detail for any condemnation interest, and inquired of the district whether it had received interest on condemnation deposits.
- We determined whether the district received from DWR advances on its flood control project expenditures.
- We conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- We verified through sampling that the costs claimed were supported by proper documentation and eligible in accordance with the applicable criteria. Based on our risk assessment, we tested all items that were equal to or greater than the significant item amount (calculated based on materiality threshold). We also tested additional items that were valued less than the individual significant item amount, based on auditor judgment and non-statistical sampling.

We tested the following expenditures:

- Land – We tested all \$3,368,672 in total land acquisition costs claimed.
- Relocation – We tested \$151,932 of \$157,224 in total relocation costs claimed.
- Labor – We tested \$343,905 of \$358,398 in total labor costs.
- Services and Supplies – We tested \$79,072 of \$103,970 in total services and supplies costs claimed.

For the selected sample, errors found were not projected to the intended (total) population.

We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed are allowable for reimbursement.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Conclusion

Our audit found instances of noncompliance with the requirements outlined above. These instances are quantified in the Schedule and described in the Findings and Recommendations section. Napa County Flood Control and Water Conservation District claimed \$3,988,264 for the Napa River/Napa Creek project under the Flood Control Subventions Program for the period of July 1, 2005, through June 30, 2016.

Our audit found that, of the \$3,988,264 in project costs claimed by the district, \$3,900,754 is allowable and \$87,510 is unallowable. The unallowable costs consisted of \$47,385 in services and supplies costs and \$40,125 in labor costs. The State's share of allowable costs is \$2,994,431. DWR has already reimbursed the district \$2,761,957 (90% of the district's claim); therefore, the district is owed the remaining balance of \$232,474.

DWR has retained \$306,884 (10% of project costs claimed), which is to be released to the district pending the results of this audit. DWR should reduce the retention balance to \$232,474, the amount still owed to the district, based on our audit.

Follow-up on Prior Audit Findings

The finding noted in our prior audit report, issued on July 14, 2016, has been satisfactorily resolved by the district.

Views of Responsible Officials

We issued a draft audit report on November 16, 2021. We contacted Richard M. Thomasser, District Manager, by telephone on December 6, 2021. Mr. Thomasser stated that the district has no comments on the draft report.

Restricted Use

This audit report is solely for the information and use of the Napa County Flood Control and Water Conservation District, the DWR, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record, and is available on the SCO website at www.sco.ca.gov.

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

January 20, 2022

Schedule— Summary of Project Costs July 1, 2005, through June 30, 2016

Claim # / Claim Category	Costs Claimed	Audit Adjustments to Claimed Costs ¹	Allowable Per Audit	State Share of Eligibility Percentage ²	State Share of Claimed Costs	Audit Adjustments to State Share	State Share of Allowable Costs	Reimbursement Received by the District	Retention	Reimbursement Due to District
NAR 27a / Land	\$ 2,400,000	\$ -	\$ 2,400,000	75%	\$ 1,800,000	\$ -	\$ 1,800,000	\$ 1,620,000	\$ 180,000	\$ 180,000
NAR 2015-01 (64) / Land	35,728	(3,980)	31,748	75%	26,795	(2,984)	23,811	24,116	2,679	(305)
NAR 2015-01 (64) / Relocations	115,001	(12,077)	102,924	90%	103,501	(10,869)	92,632	93,151	10,350	(519)
NAR 2015-02 (65) / Land	26,691	(3,812)	22,879	75%	20,018	(2,859)	17,159	18,016	2,002	(857)
NAR 2015-02 (65) / Relocations	91,341	(11,346)	79,995	90%	82,208	(10,212)	71,996	73,987	8,221	(1,991)
NAR 2015-03 (66) / Land	26,441	(21,204)	5,237	75%	19,831	(15,903)	3,928	17,848	1,983	(13,920)
NAR 2015-03 (66) / Relocations	88,442	(35,091)	53,351	90%	79,598	(31,583)	48,015	71,638	7,960	(23,623)
NAR 2016-01 (67) / Land	1,171	-	1,171	75%	878	-	878	790	88	88
NAR 2016-01 (67) / Relocations	52,509	-	52,509	90%	47,258	-	47,258	42,532	4,726	4,726
NAR 2016-02 (68) / Land	9,497	-	9,497	75%	7,123	-	7,123	6,411	712	712
NAR 2016-02 (68) / Relocations	28,891	-	28,891	90%	26,002	-	26,002	23,402	2,600	2,600
NAR 2016-03 (69) / Land	971,118	-	971,118	75%	728,338	-	728,338	655,504	72,834	72,834
NAR 2016-04 (70) / Land	(1)	-	(1)	75%	-	-	-	-	-	-
NAR 2016-04 (70) / Relocations	141,435	-	141,435	90%	127,291	-	127,291	114,562	12,729	12,729
	\$ 3,988,264	\$ (87,510)	\$ 3,900,754		\$ 3,068,841	\$ (74,410)	\$ 2,994,431	\$ 2,761,957	\$ 306,884	\$ 232,474

¹See the Findings and Recommendations section. The audit adjustment of \$87,510 is comprised of \$47,385 (Finding 1) and \$40,125 (Finding 2).

²The state share of allowable project costs represents the percentage of state funding, as stipulated in the California Water Code, for each project cost category.

Findings and Recommendations

**FINDING 1—
Unallowable
services and
supplies costs**

The district claimed \$103,970 in services and supplies costs for the Napa River/Napa Creek project during the audit period. We tested \$79,072 of these claimed costs, and identified a total of \$47,385 in unallowable costs. We reviewed the remaining \$24,898 services and supplies costs to determine whether additional claimed costs were allowable. We did not identify any additional unallowable costs.

Of the \$47,385 in unallowable services and supplies costs allocated by the district, \$20,499 was allocated to land acquisition and \$26,886 was allocated to relocations. However, the district did not specify how these items were directly associated with land acquisition costs or relocations and was unable to support its cost allocation method. As a result, the State’s share of allowable costs should be reduced by \$39,572, as shown below:

<u>Reimbursement Category</u>	<u>Unallowable Claimed Cost</u>	<u>State Share</u>	<u>Reduction in Reimbursement Due to District</u>
Land	\$ 20,499	75%	\$ 15,374
Relocations	26,886	90%	24,198
Total	<u>\$ 47,385</u>		<u>\$ 39,572</u>

The noncompliance occurred because, although the district uses project cost management to track eligible expenditures, it erroneously included ineligible costs when it processed the claim.

Section IV, Part E., subparagraphs 1 and 2 of the DWR *Guidelines* states, in part:

Associated land acquisition costs may include, but are not limited to, salaries of employees, costs incurred in securing appraisals, survey costs...and similar expenses directly attributable to the acquisition of rights-of-way. The local agency may not be reimbursed for its own administrative overhead.

Section V, Part E of the DWR *Guidelines* states, in part:

Costs incurred by the local agency in meeting relocation requirements of the project are eligible for reimbursement to the extent of the state share of the relocation. These costs may include engineering and surveying and contract administration and inspection. [The costs] may also include all other reasonable costs in connection with the relocation. The local agency may not be reimbursed for its own administrative overhead.

Section VI, Part D of the DWR *Guidelines* states, in part:

The local agency must keep and maintain a complete, accurate, and itemized record of any cost for which state reimbursement is requested.

Recommendation

We recommend that DWR reduce the retention balance for reimbursement due to the district by \$39,572. We also recommend that the district ensure that future claims for reimbursements include only allowable costs.

**FINDING 2—
Unallowable labor
costs**

The district claimed \$358,398 in labor costs for the Napa River/Napa Creek project during the audit period. We tested \$137,033 of these claimed costs, and identified \$9,437 in unallowable labor costs. As a result, we tested an additional \$206,872 in labor costs and identified another \$30,688 in unallowable costs. Of the \$343,905 in labor costs that we tested, a total of \$40,125, consisting of \$38,767 in indirect costs and \$1,358 in erroneous costs, was unallowable.

In fiscal year 2014-15, the district claimed \$272,955 in labor costs, including indirect labor costs. The district was unable to provide supporting documentation for the claimed labor costs included in the fiscal year 2014-15 indirect cost rate. Moreover, the district was unable to demonstrate that these costs were directly associated with land acquisition costs or relocations, and was unable to support its cost allocation method. We identified \$38,767 unallowable indirect costs. In addition, we identified one instance in which labor costs of \$1,358 were claimed for an employee for work unrelated to the project.

Claimed costs of \$40,125 for labor are unallowable. As a result, the State’s share of allowable costs should be reduced by \$34,838, as shown below:

<u>Description</u>	<u>Reimbursement Category</u>	<u>Audit Adjustments</u>	<u>State Share</u>	<u>Reduction in Reimbursement Due to District</u>
Indirect labor costs	Land	\$ 8,496	75%	\$ 6,372
Indirect labor costs	Relocations	30,271	90%	27,244
Erroneous labor costs	Relocations	1,358	90%	1,222
Total		<u>\$ 40,125</u>		<u>\$ 34,838</u>

These instances of noncompliance occurred because, although the district uses project cost management to track eligible expenditures, it erroneously included ineligible costs when it processed the claim.

Section IV, Part E., subparagraphs 1 and 2 of the DWR *Guidelines* states, in part:

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The local agency must keep and maintain a complete, accurate, and itemized record of any cost for which state reimbursement is requested.

Recommendation

We recommend that DWR reduce the retention balance for reimbursement due to the district by \$34,838. We also recommend that the district ensure that future claims for reimbursements include only allowable costs.

**State Controller's Office
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